SPECIAL REPORT

**Boston Municipal Research Bureau**

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# NOT OUT OF THE WOODS YET

## Financial Problems Coming in FY 1984 Require Budget Cuts Now

Not all of Boston's financial problems were resolved by the recent passage of legislation providing for payment of the Tregor abatements. Proposition 2½, with its requirement that property taxes not exceed 2½% of full and fair cash value, requires a $66 million cut in property tax revenue this year and still another third-year cut in FY 1984. The size of the cut next year will depend on the City's taxable assessment after revaluation, but a full 15% reduction of $56 million is possible. Thus it is essential that city officials look at this year's budget in light of its impact on next year.

The FY 1983 budget, now being reviewed by the City Council, should be held in the $265-275 million range, including collective bargaining increases. The budget recommended by the Mayor in June totaled $266.5 million, but that did not include salary raises which could add another $20 million. Thus the Mayor and Council should cut non-essential spending between $10 and $15 million. The need for a cut of that size stems from a Bureau projection of estimated revenues and expenditures next year. Even with a City FY 1984 budget held to $275 million, it now appears total expenditures will be some $50 million over estimated revenues. That potential imbalance should be recognized and addressed by economies this year. Once the current budget is approved, the City must operate within its financial plan, and no spending beyond appropriations can be tolerated. Money from sale of capital assets, a new revenue source developed as part of the Tregor package, should be used only for capital outlay projects and not to finance current operating expenses.

### Managing With Propostion 2½ In FY 1982 and FY 1983

In FY 1982, the first full year of Proposition 2½, Boston's property tax revenue decreased by $78 million or 15%, and the motor vehicle excise tax was cut by another $10 million. Since the Boston Funding Plan to finance the Tregor abatements was not enacted by the Legislature when the tax rate was set, the City had to raise $55 million for those payments in its operating budget. Fixed costs other than abatements increased by a net of $10.3 million. Even with an increase of $33 million in state aid, the City developed a balanced budget only by drastically cutting appropriations and increasing its non-property tax revenue. City departmental budgets were cut $75.2 million, which resulted in 2,800 city-funded employees being dropped from departmental payrolls. A two-year comparison of city departmental personnel expenditures by the Bureau showed that the City's payroll in FY 1982 was $36 million less than in FY 1981. City departmental revenue increased by $7.6 million, hospital revenues by $11.9 million and County revenues by $6.8 million, for a total of $26 million.

During the year the City was able to increase spending through supplementary appropriations of $22 million, funded mainly from increased parking fine and hospital receipts. Unfortunately $5.7 million of the $22 million was to have been funded by revenue sources which never materialized. Not all of the originally approved budget

cuts materialized either. Even after passage of the supplementary appropriations, the proposed cuts in force in some departments such as Public Works and the reductions in other non-departmental accounts like employee medical benefits were unrealistic. This caused actual spending to exceed appropriations. As a result of this and other overspending, the total city portion of the appropriation deficit for FY 1982 could exceed $20 million.

For FY 1983, the second year of Proposition 2½, property tax revenue must again be reduced by 15%, a total of $66.1 million. The completion of revaluation will have no effect on that cut. Enactment of the Boston Funding Plan, however, means that the City may only have to raise as little as $3 million for abatement deficits as compared with the $55 million of last year. The City benefited by an increase of $46 million in additional state aid and a decrease of $4 million in the MBTA assessment. Despite that $50 million windfall, the Research Bureau projects that expenditures will exceed revenues. However, this year's imbalance is not serious and can be resolved.

There are two important and interrelated issues in the projected gap--the size of the city budget and the collective bargaining settlements. The Mayor's proposed city budget of $266.5 million is $58.6 million or 28% above last year's. It would establish 798 new jobs, bringing to 1,065 positions the number added to the city-funded payroll since last January. Other key factors in the recommended increases are restoration of services, more realistic budgeting and compensation for the loss of federal funds.

No salary increases were included in the Mayor's original budget. The City is now negotiating the firefighter and patrolman contracts for both FY 1982 and FY 1983. The contracts for most other city employees expired on June 30, and new agreements with them must also be reached. The cost of the negotiated salary increases could be up to $20 million, and all city departments except the largest line departments may need to absorb these salary increases. Union agreement on provisions for management rights, productivity measures, duty hours and the type of work week needs to be achieved in this year's contracts.

Once all the appropriations are approved and the tax rate is set, no additional spending should be allowed except by approval of legitimate supplementary appropriations. That is the law, reaffirmed in the Boston Funding Plan. In the past, however, it has not been the common practice in Boston fiscal management.

## Boston Faces Serious Financial Problems in FY 1984

Looking ahead to FY 1984, the Bureau projects a shortfall between revenues and expenditures of approximately $50 million. The magnitude of that potential problem requires economies this year to get set for FY 1984. The Bureau's analysis is based on assumptions for both expenses and revenues. The potential gap is caused primarily by a third-year 15% cut in the property tax. It has been assumed that revaluation will produce total taxable assessments of $12 billion, which would mean a full 15% or $56 million cut in property taxes. Even if the new value is $14 billion, a property tax cut around $18 million would still be required. It should be noted that Boston will enter FY 1984 having already cut its property taxes by $144 million or 28% over the past two years.

The FY 1983 estimates assume the City will take $12 million in possible Tregor-case reimbursements under the new law to offset the FY 1982 school deficit. No further payment of that sort would be available in FY 1984, further reducing available revenues. Under current circumstances there is a limit to how much more the City can expect in increased aid from the state in light of federal cutbacks and concern with its own programs. The Bureau has estimated the figure at $30 million. At the city level, departmental receipts in the last two years have been pushed up considerably. Normal growth is expected for next year.

Expenditures in FY 1984 were estimated very conservatively and were figured to be less than this year. City, county and school budgets were kept level-funded. Both hospital expenditures and revenues were calculated to increase. With the exception of pensions most other expenditure items were set somewhat less than in FY 1983. The Bureau estimates of revenues and expenditures for FY 1984 are shown below.

Assessment of Boston's Financial Position in FY 84

(in 000's)

| | FY 1982 | | FY 1984 Estimate | |
|---|---|---|---|---|
| Amounts To Be Raised | Original Appropriation | Final Approp. | | |
| City Budget | $194,108 | $207,903 | $275,000 | |
| Health & Hospitals | 91,729 | 99,666 | 114,000 | |
| County Budget | 11,279 | 11,602 | 16,500 | |
| School Budget | 210,534 | 220,184 | 230,000 | |
| Sub Total | 507,650 | 539,355 | 635,500 | |
| Debt Service | 85,147 | 85,147 | 75,000 | |
| Pensions | 83,443 | 83,443 | 93,000 | |
| State Assessments | 49,737 | 49,737 | 47,500 | |
| Overlay Deficit | 55,170 | 55,170 | 3,000 | |
| Overlay Reserve | 24,140 | 24,140 | 17,513 | |
| Tax Title | 1,200 | 1,200 | 1,200 | |
| Prior Yr. Apprp. Deficit | 29,279 | 29,279 | 12,000 | |
| Prior Yr. Reserve Deficit | 2,218 | 2,218 | -0- | |
| Total Amt. to be Raised | 837,984 | 869,689 | 884,713 | |
| Revenues | | | | |
| Departmental Revenues | 44,546 | 44,711 | 48,000 | |
| Parking Fines | 14,000 | 21,811 | 29,000 | |
| Health & Hospitals | 87,001 | 94,939 | 108,000 | |
| State Aid | 224,049 | 224,049 | 299,000 | |
| Federal Revenue Sharing | 21,950 | 21,950 | 15,000 | |
| Motor Vehicle Excise Tax | 5,000 | 5,000 | 6,500 | |
| Parking Meter Fees | 719 | 719 | 1,800 | |
| Aug. Fire Service Charge | -0- | 3,500 | 8,400 | |
| Fire Alarm Fee | -0- | 2,641 | 700 | |
| Tregor Reimbursement | -0- | -0- | -0- | |
| Total Non-Property Tax Rev. | 397,265 | 419,320 | 516,400 | 516,400 |
| Property Tax Levy | 440,719 | 440,719 | 318,419 | 350,000 |
| Total Revenues | 837,984 | 860,039 | 834,419 | 866,400 |
| Surplus/(Deficit) | -0- | (9,650) | (49,894) | (18,313) |
| Assessed Valuation | | | $12 Billion | $14 Billion |

Sale of Surplus Property- Proceeds For Capital Needs Only

The Funding Loan Act provides for the sale of surplus property owned by the City and controls disposition of the proceeds. The proceeds from each sale would be deposited in a special fund, and the amount equivalent to the total debt incurred for that property could be used only for capital projects. The balance would be earmarked to the debt service account of the operational budget. As this money would "free up" funds otherwise required to pay off debt, a question is raised of how this new money should be allocated.

Since this money is made available through the sale of a capital asset and since the City has not borrowed for capital needs since June, 1980, the Bureau feels the proceeds should be used for delayed capital improvements, major maintenance projects and other purposes for which the City could incur debt. The proceeds should not be used for normal current year operating expenditures. The most prudent approach would be to invest the proceeds and use the income to support capital projects. The City can expect to generate substantial revenues from the sale of its parking garages. For example, the Government Center garage, which has 1,875 spaces, was recently appraised for $22 million, exclusive of air rights potential. Total debt incurred for the facility is around $7.8 million, leaving available funds of $14 million.

Conclusion

The $50 million gap next year on top of a smaller gap possible this year requires that the FY 1983 city departmental budget, including salary increases, fall in a range between $265-275 million. That means the Mayor's recommended budget must be cut between $10 and $15 million. Next year's gap, despite the projected reduction in total spending from this year, points to a basic deficiency in the City's revenue structure. Part of the solution to this problem, as the Bureau pointed out in a report in April, is to authorize new local tax sources to broaden the City's tax base.

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